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UNCLAS LAGOS 000125

SIPDIS

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SUBJECT: SAA NAMED NIGERIAN EAGLE'S TECHNICAL PARTNER

REF: 03 LAGOS 2153

1. (U) Summary: On Wednesday, January 14, GON officials announced the selection of South African Airways (SAA) as Nigerian Eagle Airlines' technical partner. Executives close to the deal expect the new airline to replace Nigeria's ailing national carrier, Nigeria Airways Limited, later this year. End summary.

2. (U) Competition for the position of technical partner was far from fierce: SAA was the only established international airline to answer the GON's November 17 call for expressions of interest in Nigeria's new flag carrier. Even so, the airline's proposal was subject to a thorough evaluation. Executives at Financial Derivatives Company (FDC) Limited, the Lagos-based economic think tank acting as the project's financial advisors, compared SAA's operations to those of Lufthansa and report being "impressed" by SAA's technical and managerial capacity. They say the airline is capable not only of operating domestic and regional flights, but also of providing long-haul point-to-point services to London, Dubai, Saudi Arabia, and Johannesburg.

3. (U) As Nigerian Eagle Airlines' technical partner, SAA will exercise management control and direct the airline's day-to-day operations. SAA is expected to purchase at least 30 percent of the carrier's \$60 million total equity, although FDC executives say SAA would like to control a slightly larger proportion. The financing, they say, has not been fully agreed, but they expect core investors to hold 40 percent of Nigerian Eagle Airlines and intend to offer the remaining 30 percent to individual shareholders in an initial public offering slated for late 2004 or early 2005 (or shortly after the new carrier posts two consecutive quarters of earnings). Nigerian Eagle Airlines will be wholly privately owned, but as Nigeria's designated flag carrier, it will acquire landing rights at major airports and gain access to the routes available under the GON's existing bilateral air services agreements.

4. (U) Comment: Having found a reliable technical partner, one of the only things Nigeria's new flag carrier lacks is a group of core investors. Finding them is FDC's next step. Nigerian Eagle Airlines seems to have gotten off to a good start. If it gets off the ground later this year, Nigeria's aviation industry should receive a substantial boost - and begin to repair a reputation badly damaged by Nigeria Airways' failures. End comment.

HINSON-JONES